DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY [illegible] DATE Jan 4 1977
RDS ☐ or XDS ☐ EXT. DATE
IS AUTH. REASON(S)
ENDORSE EXISTING MARKINGS ☐
DECLASSIFIED ☐ RELEASABLE ☐
RELEASE DENIED ☐
PA or FOI EXEMPTIONS

PALESTINE REFUGEE PROBLEM

Arab States Financial Summary

SYRIA

Syria represents the greatest immediate potential for absorption of refugees over the next several years. Its financial capacity for resource development is poor, however, and local costs will probably have to be financed almost entirely through outside assistance.

Budget

Syria's budget for 1949 is balanced, as always. This year it is balanced at 130 million Syrian pounds ($0.28). While it is believed that revenues are again overstated and expenditures understated, Zayim, the new head of government, might possibly institute economies and increased revenue measures to remedy that situation.

Foreign Trade

Syrian imports for the first 9 months of 1948 were SP 351 million, compared with exports of SP 44 million for the same period. The official adverse trade balance for that period was the staggering total of SP 307 million ($88 million equivalent). Factors such as the addition of ad valorem duties to import figures, however, and the undervaluation and non-reporting of exports are believed to bring the true adverse trade balance nearer to $50 million equivalent, which is perhaps half again as large as the previous year's trade deficit. While there is no official information on invisible items in the balance of payments, it is generally believed that Syria has net earnings on that score which have minimized its net outlay of foreign exchange.

The large adverse trade balance was due partly to lack of import controls (since remedied) and partly to high costs of production because of artificially high valuation of Syrian currency. Another complicating factor (modified in the closing months of 1948) was the government's requirement that exporters convert hard currency obtained from exports into Syrian pounds at the official rate. Because of the high price of Syrian wheat, even Lebanon, the normal outlet for the wheat, found it more economical to buy wheat from hard currency sources. As a result Syria had large surpluses of cereals that it was unable to export. In the opinion of the U. S. Embassy at Damascus, Syria is potentially capable of balancing her foreign trade through export of her agricultural surpluses.

DECLASSIFIED

Oil Revenues

Syria has just signed the Trans-Arabian Pipeline Convention. Its revenues should thereby be increased by a minimum of 20,000 pounds sterling annually from transit taxes. In addition, it will receive about 62,500 pounds sterling from export taxes. While this minimum annual total of 82,500 pounds sterling ($320,000 equivalent) is not large, it might possibly be assigned for debt service for an International Bank loan of about $5 million. With such funds, projects such as road and railway development might be started in the Jazira Valley where there are available about 1,750,000 acres of cultivable waste land which is rainfed and requires only men and machinery to get it into production.

Economic Conditions

Business conditions are poor. The general outlook is deflationary, with some unemployment.

LEBANON

Lebanon is in a difficult financial situation. The drain of military expenditures in 1948 caused a large budgetary deficit. At present, the large numbers of refugees within its borders constitute a heavy burden. Business conditions are depressed and there is a considerable amount of unemployment. There is probably local capital available from which local costs of development could be met, but capacity to absorb refugees is limited.

Budget

The 1948 budget of 62 million Lebanese pounds ($18 million equivalent) was slightly larger than in the previous year. Military expenditures and refugee relief, however, required additional appropriations of LL 10 million, in addition to exhausting the reserve fund, estimated at LL 20 million.

Foreign Trade

Lebanon's adverse trade balance for the first nine months of 1948 was almost as great as that of Syria. The official deficit was about LL 284 million ($81 million equivalent) during that period, although the sizeable net invisible earnings tended to reduce the actual deficit to nearer $80 million equivalent. Even though imports far exceeded the country's basic requirements in 1948, there was no policy of control or limitation to protect the fast diminishing reserves of hard currency accumulated during the war.

DECLASSIFIED

DECLASSIFIED

Oil Revenues

Now that Syria has ratified the TAPline convention, Lebanon will benefit by a minimum of $320,000 equivalent annually. The oil companies estimate that if a proposed new oil refinery is constructed, Lebanon will receive foreign exchange from taxes, fees, and local expenditures totalling about $5 million annually for the next few years.

TRANSJORDAN AND ARAB PALESTINE

Hardly any economic data are available on Transjordan. The area now identified as Arab Palestine has, of course, never before been treated as a separate unit.

Transjordan's budget is said to be about $5 million equivalent. The mainstay of the government is the annual British subsidy.

There is not the slightest doubt of Transjordan's inability to bear any significant portion of local costs of resettling refugees in the area.

Development Projects

The British government has allocated 1 million pounds sterling for irrigation and resettlement work in Transjordan. These projects should absorb about 50,000 refugees over the next two years.

In addition, the British Middle East Office estimates that a major irrigation scheme in the Jordan Valley could be financed for about $25 million equivalent, by means of which 100,000 refugees could be resettled in four or five years.

Foreign Trade

The magnitude of Transjordan's foreign trade can be seen from rough estimates for the year 1947. Imports were about 10 Palestine pounds ($4 equivalent). Exports were about 1½ million Palestine pounds. It is presumed that the deficit was covered by grants-in-aid from the British government.

IRAQ

Iraq's financial position will improve materially when its flow of oil revenues is finally restored. With its present commitments, however, and with a large flood control program envisaged over the next several years, the Iraqi government is probably unable to contribute a substantial portion of local currency costs for further development projects. While the flood control project will expand acreage under irrigation, it is doubtful that Iraq would be willing to absorb many refugees in the area.

DECLASSIFIED

Budget

Iraq's budget for 1949-50 is roughly in balance at about 25 million Iraqi Dinars ($4 equivalent). On paper, the government's position appears to be good since (1) there is a surplus item of over ID 1 million on the expenditure side of the budget and (2) the receipts side of the budget does not include Iraq's probable oil royalties. Predicating the eventual reopening of the Haifa refinery, it is estimated that royalties will total at least 8 million equivalent on the basis of present pipeline capacity and present rates. With increases in both capacity and rates in prospect, oil royalties will very possibly be doubled.

On the other side of the picture, however, revenues are overestimated. Besides that the government borrowed $17 million equivalent during the last fiscal year from Iraqi Banks and from the Currency Board, which it will try to repay over the next 2 years, but which is not included under expenditures.

Foreign Trade

Iraqi imports were about $184 million equivalent in 1948, compared with exports of about $32 million. The adverse balance of $152 million is greatly overstated because of the addition of ad valorem duties to imports and Iraq Petroleum Company imports for which Iraq does not pay. In addition, the adverse balance was made abnormally large in 1948 by the prohibition of barley exports because of a poor crop, (barley exports totalled $21 million in 1946), and because of large imports of war material. Despite these factors tending toward abnormalcy in 1948, there has been customarily an adverse trade balance, except for the war years. While there is no official information on invisible items in the balance of payments, Iraq is believed to have small net earnings on that score.

As for Iraq's hard currency position, the Anglo-Iraq Financial Agreement signed recently made available over a 12-month period the equivalent of $25 million in convertible sterling plus $3 million in Swedish Kronen. Other details of the hard currency position are not known except that under normal conditions the purchase of local currency by the oil company provided the government with a substantial amount of foreign exchange.

Prospective Loans

A mission of the International Bank for Reconstruction & Development has just returned from Iraq. The mission was impressed by possibilities for effective use of loan funds in flood control and irrigation projects. It will probably recommend that the Bank grant a loan involving about 3 million pound sterling and about $7 million over a period of 3 years. The mission believed that Iraq could pay local currency costs of about $28 million. The Bank will probably ask that a portion of oil royalties be assigned to service the loan.

DECLASSIFIED

Another loan is in prospect to finance expansion of the Iraqi State Railways. The British government recently gave its permission for the flotation of a loan aggregating 4 million pounds sterling for this purpose.

Economic Conditions

Business conditions are reported to be very depressed in Iraq. There is a deflation of some magnitude in progress, with considerable unemployment. 1949 is reported to be a year of good crops, however, which should help raise agricultural income. That plus resumption of oil operations may bring recovery.

May 3, 1949.

DECLASSIFIED